MKHONDO MUNICIPALITY
Annual Financial Statements
for the year ended 30 June 2011

Auditor General
Issued 30 June 2011

Planning by	Reviewed	Performed by	Final review

General Information

Nature of business and principal activities	Municipality
Registered office	33 Mark Street Piet Retief 2380
Bankers	First National Bank Limited
Auditors	Auditor General

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The reports and statements set out below comprise the annual financial statements presented to the municipality:

Accounting Officer's Responsibilities and Approval

The Accounting Officer is required in terms of the Municipal Finance Management Act (Act 56 of 2003) to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is his responsibility to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with grap. The external auditors are engaged to express an independent opinion on the annual financial statements and related data.

The annual financial statements are prepared in accordance with grap and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The director acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The annual financial statements set out on pages 5 to 30, which have been prepared on the going concern basis, were approved by the accounting officer on 30 June 2011 and were signed on its behalf by:

Mr K E Mpungose
Municipal Manager (Acting)

Report of The Auditor General

To the member of MKHONDO MUNICIPALITY

General Information

Councillors	
Mayor	*B H Mtshali
Speaker	P C Langa
Councillors	A T Twala
	T S Nkosi
	S S Mathebula
	M P Siyabonga
	S N Kambule
	P S Nhlabathi
	J L I Brussow
	S P Kunene
	N B Masuku
	M D Ntuli
	L V A Mkhwanazi
	S R Sangweni
	C G Mtshali
	Z J Mnisi
	K D Masondo
	S J Mngomezuulu
	M O Nkosi
	M L Yende
	M E Phakathi
	*N C Ndlovu
	D M Thwala
	B J Vilakazi
	*V D Nkosi
	N L Nhlengethwa
	Z E Mthimkhulu
	S C Mtshali
	T E Khumalo
	R J A Wilson
	H P Sunkel
	T E Motha
	S J Methula
	V W Masuku
	H A Mncube
	T G F Nhleko
	B T Mabuza
	S J Nkosi

* Members of the Mayoral Committee

General Information

1. Review of activities

Grading Of local Municipality

The municipality is a low capacity municipality.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

2. Accounting Officer (Acting)

The Accounting Officer of the Municipality during the year and to the date of this report is
Mr K E Mpungose

3. Chief Financial Officer (Acting)

The Chief Financial Officer (Acting) of the municipality is Mr M Mphelo :

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Assets			
Non-Current Assets			
Property, plant and equipment	2	437,426,292	390,400,745
Other financial assets	3	16,801,352	25,442,810
		454,227,644	**415,843,555**
Current Assets			
Inventories	4	36,912,946	1,704,972
Trade and other receivables	5	47,590,719	21,389,933
Cash and cash equivalents	6	33,665,695	1,130,969
		118,169,360	**24,225,874**
Total Assets		**572,397,004**	**440,069,429**
Equity and Liabilities			
Equity			
Retained income		466,484,947	324,011,905
Liabilities			
Non-Current Liabilities			
Other financial liabilities	7	5,671,505	7,947,531
Provisions for landfill site	15	6,554,470	-
		12,225,975	**7,947,531**
Current Liabilities			
Other financial liabilities	7	1,322,337	-
Trade and other payables	9	28,851,039	31,685,723
Unspend Conditional Grants	8	55,604,869	69,934,871
Bank overdraft	6	7,907,837	6,489,400
		93,686,082	**108,109,994**
Total Liabilities		**105,912,057**	**116,057,525**
Total Equity and Liabilities		**572,397,004**	**440,069,430**

Statement of Financial Perfomance

Figures in Rand	Note(s)	2011	2010
Revenue			
Licence Fees		5,204,800	3,669,159
Electricity Services		57,370,748	43,302,864
Fines		987,038	840,180
Government grants and Subsidies	19	97,823,994	92,896,696
Property Rates		18,877,608	23,389,373
Other Revenue	17	64,486,215	1,542,473
Interest received	18	3,353,758	3,986,013
Water Services		9,345,649	7,355,268
Service Charges	10	13,420,397	14,100,271
Rental of Equipment and Facilities		321,802	216,995
		271,192,009	**191,299,292**
Expenses (Refer to break down below)		**(178,303,649)**	**(173,703,481)**
Operating profit		**92,888,360**	**17,595,811**
Finance costs	11	(1,147,354)	(2,012,705)
Net Surplus/(Deficit)		**91,741,006**	**15,583,106**
Operating expenses			
Auditors remuneration	12	2,438,906	1,271,129
Contracted Services		12,237,490	12,304,322
Employee related costs	20	56,285,183	53,911,023
Remuneration of Councillors	22	6,855,966	6,582,519
General Expenses	14	31,940,132	57,063,171
Bulk Purchases		55,605,195	31,879,918
Grant expenses	8	4,902,005	4,715,024
Repairs and maintenance		8,038,772	5,976,375
		178,303,649	**173,703,481**

Statement of Changes in Equity

Figures in Rand	Future Depreciation Reserve	Retained income	Total equity
Opening balance as previously reported	-	356,740,932	356,740,932
Adjustments			
Prior year adjustments	-	(10,322,748)	(10,322,748)
Balance at 01 July 2009 as restated	**-**	**346,418,184**	**346,418,184**
Changes in equity			
Total comprehensive income for the year	-	21,569,259	21,569,259
Implementation of GRAP	32,350,308	(32,350,308)	-
Change in Accounting Policy	-	(11,625,230)	(11,625,230)
Total changes	32,350,308	(22,406,279)	9,944,029
Balance at 01 July 2010	**-**	**324,011,905**	**324,011,905**
Changes in equity			
Net Surplus/(Deficit)	-	91,741,003	91,741,003
Prior year adjustment	-	50,732,039	50,732,039
Total changes	-	142,473,042	142,473,042
Balance at 30 June 2011	**-**	**466,484,947**	**466,484,947**

Note(s)

Statement of Cash Flows

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Cash receipts from ratepayers, government and others		71,810,047	176,872,730
Cash paid to suppliers and employees		(93,737,716)	(154,531,131)
Cash used in operations	13	(21,927,669)	22,341,599
Interest income		-	3,986,013
Finance costs		(1,147,354)	(2,012,705)
Other non-cash item	19	97,823,994	
Net cash from operating activities		**74,748,971**	**24,314,907**
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(40,471,077)	(38,040,759)
Sale of financial assets		8,641,458	
Increase in non-current investments		-	(3,410,425)
Other non-cash item (Provision for landfill site)	2	(6,554,470)	-
Net cash from investing activities		**(38,384,089)**	**(41,451,184)**
Cash flows from financing activities			
Repayment of other financial liabilities		(953,689)	7,947,531
Net cash from financing activities		**(953,689)**	**7,947,531**
Total cash movement for the year		**35,411,193**	**(9,188,746)**
Cash at the beginning of the year		(5,358,431)	3,830,315
Total cash at end of the year	6	**30,052,762**	**(5,358,431)**

Accounting Policies

1. Basis of Presentation of Annual Financial Statements

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. These annual financial statements have been prepared in accordance with the Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

These accounting policies are consistent with the previous period and are summarise as follows:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statement
GRAP 3	Accounting Policies , Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investments in Associates
GRAP 8	Investments in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economies
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 16	Investment Properties
GRAP 17	Property, Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 100	Non-current Assets Held for Sale and Discontinued Operations
GRAP 101	Agriculture
GRAP 102	Intangible Assets

Accounting policies for material transaction, events or conditions not covered by the above GRAP Standards have been developed in accordance with paragraph 7,11 and 12 of GRAP 3.These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such Statements issued by the Accounting Practices Board.

The Accounting Standards Board has set transitional provisions for individual standards of GRAP as set out in Directive 4 issued in March 2009. Details of the transitional provisions applicable to the municipality have been provided in the notes to the annual financial statements.

A summary of the significant accounting policies which have been consistently applied except where transitional provisions has been granted are disclosed below as per Directive 4.

PRESENTATION CURRENCY
These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

GOING CONCERN ASSUMPTION
These annual financial statements have been prepared on a going concern basis.

STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18	Segment Reporting - issued March 2005
GRAP 21	Impairment of Non-Cash-generating-assets - issued March 2009
GRAP 23	Revenue from Non-Exchange Transactions - issued February 2008
GRAP 24	Presentation of Budget Information - issued November 2007
GRAP 26	Impairment of Cash-generating-assets - issued March 2009
GRAP 103	Heritage Assets - issued July 2008
IAS 19	Employee Benefits - effective 1 January 2009
IFRIC 17	Distribution of Non-cash Assets to Owners - effective 1 July 2009

Accounting Policies

1.1 Property, plant and equipment

INITIAL RECOGNITION
Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset's) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Subsequent to initial recognition, land and buildings are carried at a revalued amount, being its fair value at the date of revalutaion less any subsequent accumulated depreciation and impairment losses.
An increase in the carrying amount of an asset as a result of a revalutation is credited directly to a revaluation surplus reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.
A decrease in the carrying amount of an asset as a result of a revaluation is recognised in surplus or deficit, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

SUBSEQUENT MEASUREMENT - COST MODEL
Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

DEPRECIATION AND IMPAIRMENT
Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

	Years	Other	Years
Infrastructure			
Roads and Paving	30	Buildings	30
Pedestrian Malls	30	Specialist vehicles	10
Electricity	20-80	Other vehicles	5
		Office equipment	3-7
		Furniture and fittings	7-10
		Watercraft	15
Community		Bins and containers	5
Buildings	30	Specialised plant and equipment	10-15
Recreational Facilities	20-30	Other items of plant and equipment	2-5
Security	5	Landfill sites	25

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.
The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item

Accounting Policies

1.1 Property, plant and equipment (continued)

of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

The Municipality has taken advantage of the transitional provisions permitted by the Accounting Standards Boards, in terms of Directive 4 issued in March 2009 , with respect to the measurement of property , plant and equipment as set out in paragraph 73 to 83.

DERECOGNITION

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

Accounting Policies

1.2 Intangible assets

INITIAL RECOGNITION
An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licenses, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.
"Internally generated intangible assets are subject to strict recognition criteria before they are capitlised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:
• the municipality intends to complete the intangible asset for use or sale;
• it is technically feasible to complete the intangible asset;
• the municipality has the resources to complete the project; and
• it is probable that the municipality will receive future economic benefits or service potential."

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset's) given up.

SUBSEQUENT MEASUREMENT - COST MODEL
Intangible assets are subsequently carried at cost less accumulated amoritisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

AMORTISATION AND IMPAIRMENT
Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software	5 years

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.
The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.
The Municipality has taken advantage of the transitional provisions permitted by the Accounting Standards Boards, in terms of Directive 4 issued in March 2009 , with respect to the measurement of Intangible Assets as set out in paragraph 110 to 118..

DERECOGNITION
Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

Accounting Policies

1.3 Investment property

INITIAL RECOGNITION
Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is the cost at date of completion.

SUBSEQUENT MEASUREMENT - FAIR VALUE MODEL
Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. Any gain or loss arising from a change in the fair value of the property is included in surplus or deficit for the period in which it arises.

1.4 Financial instruments

Trade and other receivables

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

Trade and other payables

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liaibilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the company’s accounting policy for borrowing costs.

1.4 Financial instruments (continued)

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

1.5 Inventories

Inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and net realisable value on the first-in-first-out basis.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.6 Impairment of assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also:
- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.7 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

1.8 Non-current assets held for sale

INITIAL RECOGNITION
Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

SUBSEQUENT MEASUREMENT
Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

Accounting Policies

1.8 Non-current assets held for sale (continued)

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.9 Employee benefits

Retirement benefits

The municipality provides retirement benefits for its employees and Councillors. Contributions are made to the Natal Joint Municipal Pension Fund to fund the obligations for the payment of retirement benefits in accordance with the rules of the defined benefit funds it administers. Contributions are recognised as an expense in the statement of Financial Performance.

The funds are actuarially valued every three years using the discounted cash flow method. Any deficits identified by the actuary are recovered from participating municipalities in the form of surcharges added to the contributions which are recognised as an expense in the statement of Financial Performance in the year that they become payable.

OTHER POST RETIREMENT BENEFITS
The municipality provides post-retirement health care benefits to their retirees. The entitlement of these benefits is ussually conditional on the employees remaining in service up to retirement age and the completion of the minimum service period. The expected costs of these benefits are acrued over the period of employment using an accounting methodiology similar to that used for defined pension benefit plans. Acrurial gains and losses arising from experiance adjustment, and changes in actuarial assumption, are charched or credited to revenue over the expected average remaining lives of the relevent employees to the extent which they exceed the 10% corridor.

1.10 Provisions and contingencies

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:
(a) The municipality has a detailed formal plan for the restructuring identifying at least:
- the business or part of a business concerned;- the principal locations affected - the location, function, and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken; and when the plan will be implemented; and

(b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

1.11 Government grants

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

Accounting Policies

1.12 Revenue

REVENUE FROM EXCHANGE TRANSACTIONS

REVENUE
Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.
Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licenses and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passed to the consumer.

REVENUE FROM NON-EXCHANGE TRANSACTIONS

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.
Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions,liability is recognised.
Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible Councilors or officials is virtually certain.

1.13 Unauthorised Expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Irregular Expenditure
Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Accounting Policies

1.14 Fruitless and Wasteful Expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.15 Transitional Provisions

The Municipality has taken advantage of the transitional provisions permitted by the Accounting Standards Board, as set out in Directive 4 issued in March 2009 as follows:

GRAP 1	Presentation of Financial Statements - paragraphs 7-8A
GRAP 9	Revenue from Exchange Transactions - paragraphs 37-38
GRAP 12	Inventories
GRAP 17	Property, Plant and Equipment - paragraphs 73-83
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets - paragraph 93-94E
GRAP 102	Intangible Assets - paragraph 110-118

1.16 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or loss.
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

Figures in Rand	2011	2010

2. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Rates and general	182,001,598	-	182,001,598	164,260,609	-	164,260,609
Water	83,309,384	-	83,309,384	72,487,193	-	72,487,193
Electricity	67,247,710	-	67,247,710	67,247,710	-	67,247,710
Kempville	1,001,446	-	1,001,446	1,001,446	-	1,001,446
Housing Services	267,299	-	267,299	267,299	-	267,299
Retiefville	310,848	-	310,848	310,848	-	310,848
Rural areas	89,380,089	-	89,380,089	84,825,640	-	84,825,640
Work in progress	13,907,918	-	13,907,918	-	-	-
Total	**437,426,292**	**-**	**437,426,292**	**390,400,745**	**-**	**390,400,745**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Provision capitalised	Total
Rates and General	164,260,609	17,740,989	-	182,001,598
Water	72,487,193	4,267,721	6,554,470	83,309,384
Electricity	67,247,710	-	-	67,247,710
Kempville	1,001,446	-	-	1,001,446
Housing Services	267,299	-	-	267,299
Retiefville	310,848	-	-	310,848
Rural Areas	84,825,640	4,554,449	-	89,380,089
Work in progress	-	13,907,918	-	13,907,918
	390,400,745	**40,471,077**	**6,554,470**	**437,426,292**

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Total
Rates and general	155,587,763	8,672,846	164,260,609
Water	56,566,958	15,920,235	72,487,193
Electricity	61,799,163	5,448,547	67,247,710
Kempville	1,001,446	-	1,001,446
Housing Services	267,299	-	267,299
Retiefville	310,848	-	310,848
Rural Areas	77,088,696	7,736,944	84,825,640
	352,622,173	**37,778,572**	**390,400,745**

2. Property, plant and equipment (continued)

APPENDIX B

ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT

AS AT 30 JUNE 2011

	Opening balance	Additions	Provision Capitalised	Total
Land	14,043,870	-	-	14,043,870
Dams	17,901	-	-	17,901
Hydro Station	497,821	-	-	497,821
Meters	8,260,418	-	-	8,260,418
Sewerage Schemes	44,290,484	-	-	44,290,484
Networks	189,679,001	20,908,259	6,554,470	217,141,730
Resevours	1,024,430	-	-	1,024,430
Roads and Storm Water	31,174,236	5,418,383	-	36,592,619
Transformers and Sub Station	5,655,829	-	-	5,655,829
Forestry	1,339,195	-	-	1,339,195
Cemetery	274,419	-	-	274,419
Balance Carried forward	**296,257,604**	**26,326,642**	**6,554,470**	**329,138,716**

Figures in Rand	2011	2010

2. Property, plant and equipment (continued)

APPENDIX B

ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT

AS AT 30 JUNE 2011

	Opening balance	Additions	Disposals	Provision Capitalised	Total
Balance brought down	296,257,604	26,326,642	-	6,554,470	329,138,716
Clinics	194,615	-	(17,779)	-	176,836
Park and recreational	2,632,191	-	-	-	2,632,191
Security	1,003,427	-	-	-	1,003,427
Motor Vehicles	15,841,587	1,595,776	-	-	17,437,363
Computer Equipment	4,139,219	245,507	-	-	4,384,726
Office Equipment	754,233	3,639,961	-	-	4,394,194
Furniture and Equipment	2,884,024	251,368	(17,851)	-	3,117,541
Machinery and Equipment	4,042,945	-	-	-	4,042,945
Fire and Emergency Equipment	2,989,404	-	-	-	2,989,404
Other Assets	3,683,695	1,994,690	(2,527)	-	5,675,858
Dwellings	23,950,826	5,999,985	(43,193)	-	29,907,618
Non Residential Structures	17,983,103	516,896	(4,000)	-	18,495,999
	376,356,873	**40,570,825**	**(85,350)**	**6,554,470**	**423,396,818**

PROPERTY, PLANT AND EQUIPMENT

Transitional Provision
In accordance wit the transional provisions as per Directie 4 of the GRAP reporting framework, as disclosed in Note 15. certain Property Plant and Equipment with the Carrying Value of R388 163 084 (2011 R430 886 220) was recognised at provisional amounts.

Steps Taken to establish Values of Property Plant and Equipment
1.The municipality has identified all its infrastructure and immovable assets
2. The municipality has already started with the tendering process to obtain accredited valuers as per Directive 7

Full Compliance with GRAP 17
The municipality is expected to fully comply with GRAP 17 Requirements on or before 30 June 2012

Figures in Rand	2011	2010

3. Other financial assets

Available-for-sale		
Listed shares	16,773,545	12,133,225
Other financial asset 1	27,807	13,309,585
	16,801,352	**25,442,810**
Non-current assets		
Available-for-sale	16,801,352	25,442,810

The municipality has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

There were no gains or losses realised on the disposal of held to maturity financial assets in 2011 and 2010, as there are no financial assets that were disposed of during the year.

The maximum exposure to credit risk at the reporting date is the fair value of each class of loan mentioned above. The municipality does not hold any collateral as security.

4. Inventories

Materials and Consumables	1,346,726	1,704,972
Water	35,566,220	-
	36,912,946	**1,704,972**

In accordance with the transitional provision as per Directive 4 of the GRAP reporting framework,. Certain inventories with a carrying value of R 36 902 946 (2010: 1 704 972) were recognised at provisional amounts. Carrying amounts of inventories carried at provional amounts as follows:

Steps Taken to validate invetory measurements
In depthe analysis by the Finance and Technical departments to establish proper measurements and /or values for inventories held

Full Compliance to GRAP 12
The municipality is expected to fully comply with GRAP 12 requirements by June 2012

5. Trade and other receivables

Trade receivables	40,322,030	13,732,933
VAT	1,360,394	1,820,213
Deposits of Fuel and Eskom	296,214	278,306
Adminstrator Cost	5,507,186	5,558,481
Other sundry receivable	104,895	-
	47,590,719	**21,389,933**

The creation and release of provision for impaired receivables have been included in operating expenses in profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The municipality does not hold any collateral as security.

Figures in Rand	2011	2010

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	9,038	7,038
Short-term deposits	33,656,657	1,123,931
Bank overdraft	(7,907,837)	(6,489,400)
	25,757,858	**(5,358,431)**
Current assets	33,665,695	1,130,969
Current liabilities	(7,907,837)	(6,489,400)
	25,757,858	**(5,358,431)**

7. Other financial liabilities

Held at amortised cost		
DBSA Electro Ethanda	3,567,877	3,197,304
DBSA Elect Ext 7 & 9	1,827,173	2,206,518
DBSA Sewerage	691,632	1,070,151
DBSA Electricity	206,834	460,967
DBSA Streets Ethanda	648,744	772,156
DBSA Elec Ext 5	25,752	37,230
DBSA Las Beheerstelsel	25,830	203,205
	6,993,842	**7,947,531**

The DBSA loans is repayable in two instalments annually at a fixed interest rate.

Non-current liabilities		
At amortised cost	5,671,505	7,947,531
Current liabilities		
Short Term Portion	1,322,337	-
	6,993,842	**7,947,531**

8. Unspend Conditional Grants

MIG Grant		
Opening Balance	37,584,562	18,245,854
Current Year Receipts	40,495,000	27,800,000
Conditions met -Transfer to Revenue	(22,474,693)	(8,461,292)
Total	**55,604,869**	**37,584,562**
FMG Grant		
Current Year Receipts	1,000,000	1,000,000
Conditions met - Transferred to revenue	(1,000,000)	(1,000,000)
Total	**-**	**-**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

9. Trade and other payables

Trade payables	154,974	5,391,181
Debtors Suspense	518	-
Insurance Claims	-	4,294,904
Accrued leave pay	3,540,524	3,787,290
Accrued expense	8,713,610	-
Motor Licences	5,822,767	6,549,482
Deposits received	2,936,243	2,728,454
Other payables	7,683,439	8,934,412
	28,851,039	**31,685,723**

10. Service Charges

Services		
Basic Charges	2,913,968	-
Refuse Removal	5,938,633	5,444,955
Sewerage	4,567,796	8,655,318
Total	**13,420,397**	**14,100,273**

11. Finance costs

Bank	1,147,354	2,012,705

Capitalisation rates used during the period were the effective interest rates on specific borrowings for capital projects. There were nofunds borrowed for general purposes by the municipality.

Total interest expense, calculated using the effective interest rate, on financial instruments amounted to R 1,147,354 (2010: R 2,012,705).

12. Auditors' remuneration

Fees	2,438,906	1,271,449

13. Cash used in operations

Profit before taxation	105,161,402	21,569,259
Adjustments for:		
Finance costs	1,147,354	2,012,705
Movements in provisions	6,554,470	-
Other non-cash items	(2,692,010)	(521,410)
Prior Year Adjustment for retained earnings	(53,525,439)	-
Changes in working capital:		
Inventories	(35,207,974)	(113,802)
Trade and other receivables	(26,200,786)	(12,349,721)
Prepayments	-	(5,558,481)
Construction contracts and receivables	-	(46,407,119)
Other asset 1	-	(7,947,704)
Other asset 2	-	(5,391,181)
Other asset 3	-	7,114,182
Trade and other payables	(2,834,684)	-
Unspend Conditional Grants	(14,330,002)	69,934,871
	(21,927,669)	**22,341,599**

Figures in Rand	2011	2010

14. General Expenses

Included in general expenses are the following		
Advertising	455,747	482,536
Bank Charges	310,013	508,248
Legal Fees	2,443,737	6,955,602
Insurance	2,150,107	2,269,717
Water consumption and Electricity	4,944,150	457,783
Chemicals	1,091,912	740,202
Printing and Stationery	902,243	1,062,046
Rental of Office Equipment	1,340,278	1,419,400
Rural Development	5,654,692	14,381,165
Telephone	2,573,396	1,812,341
Transport	6,288,619	4,911,685
Other expenses	3,785,238	22,062,446
Total	**31,940,132**	**57,063,171**

15. Provisions for landfill site

Reconciliation of provisions for landfill site - 2011

	Opening balance	Additions	Total
Landfill site	-	6,554,470	6,554,470

Landfill sites

An accredited service provider (Monde Consulting, engineers) was appointed to perform a valuation on the landfill sites owned by the municipality. All land fill sites are to be registered in terms of the requirements set by the Institute of Waste Management of South Africa.

The landfill site is currently measured at R 6 554 470.

16. Capital Commitments

Commitments relate to MIG projects that have already been registered by June 2011 for the 2011/12 financial year.

Approved but not yet contracted for		
Infrastructure	28,350,368	-
Administration	923,714	-
Total	**29,274,082**	**-**

These expenditures will be financed from:		
Government Grants (MIG)	29,274,082	-

17. Other Revenue

Other revenue is made up of the following sub-classes:

Revenue Description		
Proceeds on sale of assets	4,414,604	-
Sundries, Water	35,566,220	-
Decrease Provision for Irrecoverable Debts	22,254,123	-
Night Soil Removal	551,320	512,856
Sale Pine	699,314	1,550,891
Sale of Gum	309,060	1,857,723
Other	691,574	1,418,041
Total Other Revenue	**64,486,215**	**5,339,511**

Figures in Rand	2011	2010

18. Interest Income

Received		
Bank	3,353,758	3,986,013
Financial Assets	-	203
	3,353,758	**3,986,216**

19. Government Grants and Subsidies

Grants taken to revenue conditions met		
Equitable share	73,343,254	58,800,288
FMG	1,594,835	1,000,000
MSIG	72,391	735,000
LGSETA	328,834	206,637
MIG	22,476,930	8,611,292
GSDM	7,750	23,750,116
	97,823,994	**93,103,333**

20. Employee Related Costs

Salaries		
Basic Salaries	46,129,871	41,885,439
Contributions UIF, Pension and nedical aid	2,295,946	8,427,967
Overtime	3,313,185	3,514,738
Housing Benefits	586,399	82,879
Bonuses and Other Allowances	3,952,783	-
Total	**56,278,184**	**53,911,023**

21. Contingencies

Disputes on non payment by Municipality on services Rendered		
Various Suppliers	1,520,967	-
Legal dispute against municipality		
Claim by employee	100,000	-
Total	**1,620,967**	**-**

Contigent Asset
ABSA investment by the municipality was embezzled by an ABSA employee.
ABSA has confirmed they will refund the muniocipality to settle the the matter.

Investment	4,775,000	-

22. Section 57 remuneration

Remuneration for the Municipal Manager		
Annual Remuneration	-	634,519
Performance Bonus	-	1
	-	**634,520**

Figures in Rand	2011	2010

23. Remuneration of Councilors

Councilors		
Executive Mayor	347,781	555,009
Speaker	267,223	444,005
Executive Committee Members	751,106	1,518,901
Councilors	2,572,769	2,937,105
Councilors, pension and medical old contributions	565,334	1,127,499
Councilors allowance	2,351,753	-
Total	**6,855,966**	**6,582,519**

Figures in Rand	2011	2010

24. APPENDIX E

ACTUAL VERSUS BUDGET REVENUE AND EXPENDITURE FOR YEAR ENDED 30 JUNE 2011

Property Rates	18,877,608	4,000,000
Ineterest Earned	3,353,758	316,100
Service Charges	13,420,397	985,000
Electricity Services	57,370,748	64,568,426
Water Services	9,345,649	7,961,247
Government Grants and Subsidies	97,823,994	18,500,000
Fines	987,038	-
Rental Revenue	321,802	170,400
Other Revenue	6,665,872	38,700
Licence Fees	5,204,800	-
Total	**213,371,666**	**96,539,873**

Expenditure		
Employee related costs	56,285,183	7,015,700
Councilors remuneration	6,855,966	1,101,902
Repairs and Maintenance	8,038,772	586,000
Bulk purchases	55,605,195	-
Interest paid	1,012,054	-
General Expenses	31,940,132	9,619,398
Contracted Services	12,237,490	-
Grant Expenditure	4,902,005	3,611,656
Auditors Remuneration	2,438,906	-
Total Expenditure	**179,315,703**	**21,934,656**